

Use the question-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

SECTION A

1. (a) (i) Define the term **exchange rate** indicated in bold in the text (paragraph ③). [2 marks]

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 <i>Vague definition.</i> The idea that it is to do with the price of a currency.	1
2 <i>Accurate definition.</i> An explanation that it is the value of one currency expressed in terms of another currency.	2

- (ii) Define the term **foreign direct investment** indicated in bold in the text (paragraph ④). [2 marks]

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 <i>Vague definition.</i> Any one of: <ul style="list-style-type: none"> • The purchase of financial investments (shares and bonds). • In order to gain a financial return (interest or dividends). • It is part of the financial account. 	1
2 <i>Accurate definition.</i> Any two of: <ul style="list-style-type: none"> • The purchase of financial investments (shares and bonds). • In order to gain a financial return (interest or dividends). • It is part of the financial account. 	2

Investment by firms based in one country in productive activities/assets in another country. The investment is a long-term interest.

- (b) Using an appropriate diagram, explain *two* possible causes of the increase in value of the Australian dollar. [4 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>There is a correct diagram or an accurate written response.</i> For drawing a correctly labelled diagram showing the market for the Australian dollar, a shift of the demand curve to the right, and an increase in the exchange rate or for an explanation that the value of the dollar will rise following an increase in the demand for it caused by any one of the following: (a) an increase in demand for exports of resources (<i>paragraph 2</i>) (b) inflow of financial capital from abroad for foreign direct investment (<i>paragraph 3</i>) (c) inflow of financial capital from abroad for portfolio investment (<i>paragraph 3</i>) (d) inflow of financial capital from abroad for savings (<i>paragraph 3</i>).	1–2
2 <i>There is a correct diagram and an accurate written response.</i> For drawing a correctly labelled diagram showing the market for the Australian dollar, a shift of the demand curve to the right, and an increase in the exchange rate and for an explanation that the value of the dollar will rise following an increase in the demand for it caused by two of the following: (a) an increase in demand for exports of resources (<i>paragraph 2</i>) (b) inflow of financial capital from abroad for foreign direct investment (<i>paragraph 3</i>) (c) inflow of financial capital from abroad for portfolio investment (<i>paragraph 3</i>) (d) inflow of financial capital from abroad for savings (<i>paragraph 3</i>).	3–4

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

For an exchange rate diagram, the vertical axis may be exchange rate, price of dollars in other currencies, or any currency per dollar. The horizontal axis should be quantity, or quantity of dollars. A title is not necessary.

- (c) Using an AD/AS diagram, explain why “an extraordinary boom in the construction of new mining facilities ... has also threatened inflation” (paragraph 2).

[4 marks]

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 There is a correct diagram <i>or</i> an accurate written response. For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the right and indicating a rise in the average price level <i>or</i> for explaining that the boom will require a great deal of investment, which is a determinant of AD, thus increasing AD and causing inflationary pressure in the economy.	1–2
2 There is a correct diagram <i>and</i> an accurate written response. For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the right and indicating a rise in the average price level <i>and</i> for explaining that the boom will require a great deal of investment, which is a determinant of AD, thus increasing AD and causing <u>inflationary pressure</u> in the economy.	3–4

-Must
Ref TO P.L. ↑

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

For AD/AS, the vertical axis may be price level or average price level. The horizontal axis may be output, real output, national output, real national output, national income, or GDP. A title is not necessary.

- (d) **Using information from the text/data and your knowledge of economics, discuss the possible consequences of the strong Australian dollar.** [8 marks]

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Do not award beyond Level 2 if the answer does not contain reference to the information provided.

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- an explanation of a strong Australian dollar
- increase in export prices and the effect on export revenue of natural resource producers and thus AD
- increase in export prices and the effect on non-resource producers and tourism (*paragraph 3*)
- the importance of price elasticity of demand for exports in determining revenue changes
- the effect of the high exchange rates on inflation (*paragraph 2 and 4*)
- the effect of high exchange rates on consumers (*paragraph 4*)
- the effect of high exchange rates on businesses (*paragraph 4*)
- the effect on employment
- the effect on economic growth (*paragraph 2*)
- the likely impact on the current account balance.

Any reasonable discussion.

2. (a) (i) Define the term **quota** indicated in bold in the text (paragraph ⑥). [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> The idea that it is to do with a restriction on imports.	1
2 <i>Accurate definition.</i> An explanation that it is a physical limit on the number or value of a good that can be imported into a country.	2

- (ii) List **two** reasons why the government might wish to protect the domestic poultry industry. [2 marks]

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Vague definition.</i> Any one of the following reasons: <ul style="list-style-type: none"> • to protect jobs • to ensure higher revenues for domestic chicken producers • to reduce the potential impact on growth as the industry makes up 60 % of the agriculture sector • to compensate for the subsidies given to foreign producers • to improve the balance of payments • to earn government tariff revenue • to protect safety standards • to counteract dumping. 	1
2 <i>Accurate definition.</i> Any two of the following reasons: <ul style="list-style-type: none"> • to protect jobs • to ensure higher revenues for domestic chicken producers • to reduce the potential impact on growth as the industry makes up 60 % of the agriculture sector • to compensate for the subsidies given to foreign producers • to improve the balance of payments • to earn government tariff revenue • to protect safety standards • to counteract dumping. 	2

- (b) Using an appropriate diagram, explain the likely effect that the suggested increase in the tariff (*paragraph ③*) would have on the domestic production of chicken.

[4 marks]

Level

Marks

0 The work does not reach a standard described by the descriptors below.

0

1 There is a correct diagram **or** an accurate written response.

1–2

For drawing a correctly labelled tariff diagram to show an increase in the tariff through an upward shift of the world supply + tariff curve and an increase in domestic production **or** an explanation that there would be an increase in domestic production as the price of chicken rises (or as imports decrease).

2 There is a correct diagram **and** an accurate written response.

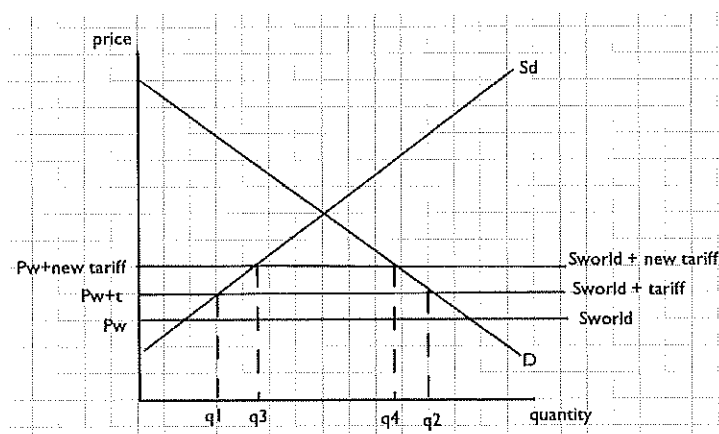
3–4

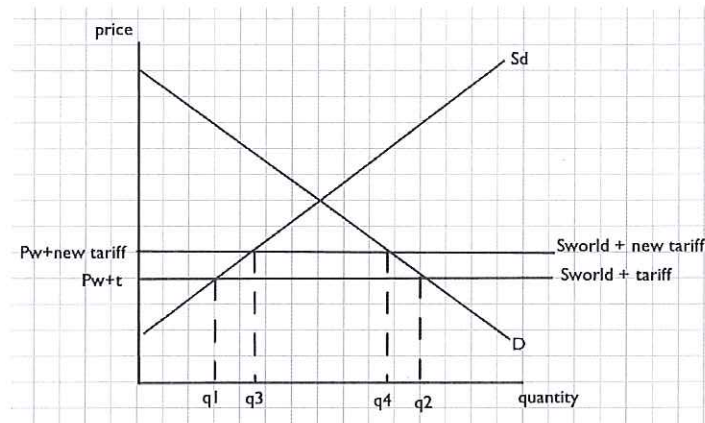
For drawing a correctly labelled tariff diagram to show an increase in the tariff through an upward shift of the world supply + tariff curve and an increase in domestic production **and** an explanation that there would be an increase in domestic production as the price of chicken rises (or as imports decrease).

Candidates who do not recognize that there is an increase in the tariff and simply show the imposition of a tariff can be rewarded with a maximum of [1 mark] for the diagram. If the explanation correctly refers to an increase in domestic production, [2 marks] may be awarded.

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

The use of P and Q on the axes is sufficient for a demand and supply diagram. The world supply curve with the tariff should be labelled $S_w + T$ or $S_{world} + \text{tariff}$. A title is not necessary.





- (c) Using an AD/AS diagram, suggest what will happen to employment if imports continue to damage the domestic chicken industry. [4 marks]

Level

Marks

0 The work does not reach a standard described by the descriptors below.

0

1 There is a correct diagram **or** an accurate written response.

1–2

For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the left **or** for explaining that increasing imports will reduce AD (net exports), which will reduce real national output, thus reducing employment in the economy. *FALL IN OUTPUT ⇒ RISE IN UNEMPLOYMENT.*

2 There is a correct diagram **and** an accurate written response.

3–4

For drawing a correctly labelled AD/AS diagram with a shift of the AD curve to the left **and** for explaining that increasing imports will reduce AD (net exports), which will reduce real national output, thus reducing employment in the economy.

Candidates who incorrectly label diagrams can be rewarded with a maximum of [3 marks].

For AD/AS, the vertical axis may be price level or average price level. The horizontal axis may be output, real output, national output, real national output, national income, or GDP. A title is not necessary.

Alternatively an AD_L/AS_L diagram could be used for the poultry industry's labour market. (Structural unemployment).

- (d) Using information from the text/data and your knowledge of economics, discuss the arguments for and against the protection of the domestic chicken market.

[8 marks]

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Do not award beyond Level 2 if the answer does not contain reference to the information provided.

Level	Marks
0 <i>The work does not reach a standard described by the descriptors below.</i>	0
1 <i>Few relevant concepts are recognized.</i> There is basic knowledge/understanding.	1–2
2 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is some attempt at application/analysis.	3–5
3 <i>Relevant concepts are recognized and developed in reasonable depth.</i> There is clear knowledge/understanding. There is effective application/analysis. There is synthesis/evaluation, supported by appropriate theory and evidence.	6–8

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. Opinions or conclusions should be presented clearly and supported by appropriate evidence.

Responses **may** include:

- a definition of trade protection
- **Arguments for trade protection**
 - it will make things “fairer” between local and imported markets (*paragraph ③*)
 - it will protect employment in the local industry (*paragraph ⑨*)
 - it will protect employment in other, connected industries
 - increased tariff revenue for the government
 - local producers cannot compete (*paragraph ③*)
 - there are hints of dumping taking place since the producers in the US, the EU and Brazil are heavily subsidized (*paragraph ③*)
 - the government cannot afford subsidies therefore a tariff is justified (*paragraph ⑤*)
 - Trinidad and Tobago has the lowest tariff in the region (*paragraph ③*) so a higher tariff may be justified *NB: IT WILL NOT PROTECT CHICKENS TO THESE OTHER COUNTRIES.*
 - the industry is important to the economy for both jobs and revenue (*paragraph ⑨*)
 - agriculture is important for self-sufficiency

- **Arguments against trade protection**
 - it may raise the price to consumers, despite reassurances (*paragraph 1*)
 - it may raise the price to producers who buy the imported chicken as an input for their final product
 - competition may diminish and local producers may become inefficient
 - it may lead to retaliation from other countries
 - it may reduce consumption of chicken
 - equity issue, since spending on food is likely to represent a substantial proportion of income of low income households
 - welfare loss
 - misallocation of world's scarce resources.

Any reasonable discussion.

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1–2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3–5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6–8

3. (a) Define the following terms indicated in bold in the text:

(i) current account surplus (paragraph ②) *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is exports being greater than imports.	1
2	<i>Precise definition</i> An explanation of any one of the following: <ul style="list-style-type: none"> • revenue from the export of goods and services is greater than the expenditure on the import of goods and services • net exports of goods and services plus net investment income and net current transfers are greater than zero. 	2

(ii) fiscal policy (paragraph ③). *[2 marks]*

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it is related to government expenditure and taxation.	1
2	<i>Precise definition</i> An explanation that it is a policy that uses changes in government spending (G) and/or taxation (T) to affect aggregate demand.	2

- (b) Using an AD/AS diagram, explain why the German government is “planning to use contractionary fiscal policy” (*paragraph ③*). *[4 marks]*

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1–2

For drawing a correctly labelled AD/AS diagram where AD has shifted to the right and the average price level is increasing **or** for explaining that not using contractionary fiscal policy may increase inflation.

2 *Correct application of appropriate theory*

3–4

For drawing a correctly labelled AD/AS diagram where AD has shifted to the right and the average price level is increasing **and** for explaining that not using contractionary fiscal policy may increase inflation.

Some candidates may draw an AD/AS diagram showing a leftward shift of AD explaining that the original AD represents the economy under inflationary pressures and AD₁ represents the effect of the planned contractionary fiscal policy. If the diagram and explanation are correct, then these candidates should be fully rewarded.

Candidates who incorrectly label diagrams can be rewarded with a maximum of *[3 marks]*.

For AD/AS, the vertical axis may be price level, average price level, or inflation. The horizontal axis may be output, real output, national output, real national output, national income (Y), or GDP. Any appropriate abbreviations, such as APL, CPI, RNO or RNY are allowable. A title is not necessary.

- (c) Explain why a “weak euro” may be responsible for Germany’s growing current account surplus (*paragraph ②*). [4 marks]

level

0 *Inappropriate answer*

0

1 *Identification of appropriate theory*

1–2

For explaining that a depreciating currency makes exports cheaper and thus may increase export revenues **or** for explaining that a depreciating currency makes imports more expensive and thus may decrease import expenditures.

2 *Correct application of appropriate theory*

3–4

For explaining that a depreciating currency makes exports cheaper and thus may increase export revenues **and** for explaining that a depreciating currency makes imports more expensive and thus may decrease import expenditures, resulting in a growing current account surplus as (X-M) increases.

- (d) Using information from the text/data and your knowledge of economics, evaluate the decision of the German government to use contractionary fiscal policy. [8 marks]

Responses **may** include:

- explanation of contractionary fiscal policy
- diagram to illustrate contractionary fiscal policy
- an explanation of how an increase in taxes and/or reducing government spending reduces aggregate demand.

Advantages of contractionary fiscal policy:

- explanation of how contractionary fiscal policy reduces inflationary pressures (*paragraph ③*)
- benefits of lower rates of inflation
- contractionary fiscal policy reduces the budget deficit.

Disadvantages of contractionary fiscal policy:

- cuts in social welfare and unemployment benefits reduce aggregate demand
- redistributive effects of social welfare cuts (*paragraph ④*)
- the impact of falling aggregate demand on economic growth and unemployment (*paragraph ④*)
- the impact of higher taxes on worker incentives and tax revenues
- practical difficulties of applying a tight fiscal policy *e.g.* time lags, political difficulties
- contractionary fiscal policy will further reduce Germany’s imports (*paragraph ②*)
- continuing risk of recession makes the use of contractionary fiscal policy dangerous (*paragraph ①*).

Examiners should be aware that candidates may take a different approach which if appropriate, should be rewarded.

If there is no direct reference to the data, then candidates may not be rewarded beyond level 2.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1–2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3–5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6–8